

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 6244

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: GERMAN FOREIGN EXCHANGE MARKETS, FEB 2-4

1. PRIVATE BANKERS AND GERMAN FOREIGN EXCHANGE DEALERS
ATTRIBUTE THE STRENGTHENING OF THE DM ON FEBRUARY 2
TO GROWING FEELING IN THE MARKET THAT SOME PARITY
REALIGNMENT WITHIN SNAKE LIKELY OVER NEXT FEW MONTHS.
THIS FEELING STRENGTHENED WHEN BUNDESBANK FAILED TO
RESIST APPRECIATION OF DM AS MANY DEALERS HAD
EXPECTED IT WOULD. VOLUME INCREASED DURING THE DAY.
THEY DISCOUNT SLIGHT NARROWING OF DOLLAR/DM INTEREST
RATE DIFFERENTIAL AS A SIGNIFICANT FACTOR.

2. WEAKENING OF DM IN THE MORNING OF FEBRUARY 3
IS ATTRIBUTED BY FOREIGN EXCHANGE DEALERS TO TECHNICAL
REACTION AND TO LEAKS AND LATER RELEASE OF
DISAPPOINTING DECEMBER DATA ON FOREIGN ORDERS. BY
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AFTERNOON MARKET, HOWEVER, HAD DISCOUNTED ORDER DATA

ON THE BASIS THAT PARTICULARLY LONG CHRISTMAS HOLIDAYS
THIS YEAR MAY HAVE DISTORTED IT. IN ADDITION, FOREIGN
EXCHANGE DEALERS SAY THAT IT IS THEIR GENERAL EXPERIENCE
THAT IF A CURRENCY WEAKENS, INITIALLY THIS LEADS TO
DISPROPORTIONATE STRENGTHENING OF DOLLAR AND SWISS
FRANC WITH FUNDS MOVING INTO DM ONLY WITH SOME DELAY.

3. DURING FEBRUARY 4, VOLUME IS DESCRIBED AS
CONTINUING TO BE LARGE, BUT NOT QUITE AS HEAVY AS
EARLIER IN THE WEEK.

4. MOST FOREIGN EXCHANGE DEALERS DO NOT EXPECT
MARKET TO RETURN SOON TO TRANQUILITY OF LAST FEW
MONTHS. THEY EXPECT SOME CONTINUED UPWARD PRESSURE
ON DM OVER COMING WEEKS, BUT MOST THINK THAT THE DM
WILL REMAIN IN THE \$1 EQUAL DM 2.55 - 2.60 RANGE
AND PRACTICALLY NO ONE EXPECTS THE DM TO BREAK OUT
OF THE CURRENT BUNDESBANK "REASONABLE RANGE" OF
\$1 EQUAL DM 2.50 - 2.70.
CASH

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